Monthly Mosaic | April 3, 2025

Perspective

Yesterday, the Trump administration announced their Tariff proposal with proposed rates considered by many the worst-case scenario, generating an additional $500bn in tariff revenue in addition to the $150bn from tariffs already enacted. The market had been anticipating the news all week with sharp negative movements in each of the previous market opens this week, only to recover later in each of those days. Today, markets dropped almost 4% in early trading and sentiment around the recent tariff news is somber as analyst recalculate the tariff impact on corporate earnings expectations and economists assess the total impact of these trade policies.

Uncertainty is always a bad thing as it relates to stock prices ultimately resulting in a reduction in the valuation multiples investors are willing to pay for a dollar of earnings. It is certainly of no help that the polarization of political perspectives has become the base from which media generates their narrative. With this in mind it is critical that we separate prevailing media's agenda from the actual raw data. To clarify, tariffs are taxes! Taxes have and always will have a negative economic impact and on their own, we should expect tariffs to negatively impact earnings and market outlook. Yet, it remains important to understand the magnitude of that impact in consideration of the overall economy.

Last month, investors became nervous as markets entered correction territory trading down over 10% from their previous highs. As economic data continued to indicate strength and employment numbers remained strong, markets recovered in the second half of the month. Yet, anticipation of a "trade war" created trepidation as investors awaited the announcement of reciprocal tariffs to U.S. trading partners. As the news was worse than expected, today's pull back has set a path for the S&P 500 to trade down for the third consecutive month as markets return to correction territory. The S&P is now down over 11% from its previous high and international markets have erased most of their gains year-to-date.

Still employment remains strong as jobless claims were lower than expected today and PMI composite index came at 53.5, indicating expansion. Inflation remains in check but with the recent uncertainty around the tariffs, the market is pricing in two rate cuts by the Fed before September. We would temper expectations on that front as the Fed Chairman Jerome Powell indicated "It is the net effect of policy changes that will matter for the economy..." as they held rates steady during the March meeting. That net effect includes tighter fiscal policy with DOGE identifying opportunities to reduce government spending along with the administration's tariff policy. Yet, those cut backs are geared toward a reduction in regulation and streamlining oversight which would be stimulative to the economy. Last, the sunsetting of the Tax Cut and Jobs Act is expected to be extended which could be a catalyst to offset some of the tariff impact. Along with potential individual tax rate cuts, corporate tax rate cuts and immediate depreciation of new capital projects could act as an economic boost.

The competing forces of the administrations' policies has resulted in change, uncertainty, and higher market volatility. For those impacted directly or indirectly by the changing policies, you have our thoughts and please reach out to your advisor if your goals have shifted. For those nervous about the current market environment, it may be a good time to reassess your objectives with your financial advisor. Last, keep in mind that change always provides opportunity and your team at Old Second Wealth and River Street Advisors will help identify that opportunity.

Monthly Recap

- Tariffs that were delayed for one month on Canada and Mexico went into effect as the administration indicated not enough had been done to ebb the flow on fentanyl into the U.S. The tariffs are 25% across the board with a lower 10% rate on energy from Canada. There was also an exception for goods compliant with the United States Mexico Canada Agreement (USMCA).Tariffs on China were increased by an additional 10%, marking 20% added since Trump took office.

- Congress averted a government shut down by passing a continuing resolution (CR) to fund the federal government until September 30th.

- The Federal Reserve did not make any changes to the Federal Funds Rate, leaving it unchanged at 4.25%-4.50%. They did reduce the level of maturing treasuries allowed to run-off their balance sheet from $25 billion per month to $5 billion per month, effectively taking a more dovish stance on interest rates.

- The Trump administration announced a 25% tariff that would be imposed on all vehicles and vehicle parts that are not made in the United States and would go into effect on April 3rd.

Markets

	Total Return as of: 3/31/2025		
Market Indices	MTD %	YTD %	1-Year %
S&P 500 Index	-5.63%	-4.28%	8.23%
NASDAQ Composite	-8.14%	-10.26%	6.38%
Russell 2000 Index	-6.81%	-9.48%	-4.02%
MSCI EAFE Index	-0.40%	6.86%	5.00%
MSCI Emerging Markets	0.63%	2.93%	8.39%
BBG US Aggregate Bond	0.04%	2.78%	4.88%
WTI Crude Oil	3.01%	0.61%	2.63%
Gold	9.30%	19.02%	40.08%

Interest Rates

	Close 3/31	Prior Month	Year Ago
Fed Funds Target	4.50%	4.50%	5.50%
6-Month US Treasury	4.23%	4.27%	5.32%
2-Year US Treasury	3.89%	3.99%	4.62%
10-Year US Treasury	4.21%	4.21%	4.20%

The Month Ahead

APRIL 4TH
Bureau of Labor Statistics - Jobs Report

APRIL 10TH
Consumer Price Index Report

APRIL 17TH
Philly Fed Bus Outlook, Conf Board Leading Indicators

APRIL 23RD
S&P Global - U.S. PMI

APRIL 30TH
Personal Consumption Expenditure Price Index

Questions?

Your Wealth Management team is here to answer.

Richard Gartelmann, CFP®
(630) 844-5730
rgartelmann@oldsecond.com

Jacqueline Runnberg, CFP® CDFA®
(630) 966-2462
jrunnberg@oldsecond.com

Steve Meves, CFA
(630) 801-2217
smeves@oldsecond.com

Brad Johnson, CFA, CFP®
(630) 906-5545
bjohnson@oldsecond.com

Chris LaPorta, AFIM, CTFA
(630) 264-3002
claporta@oldsecond.com

Mike Cava, CFA, CFP®
(630) 281-4522
mcava@oldsecond.com

Travis Buoy
(630) 906-5488
tbuoy@oldsecond.com

Yamilet Suarez
(630) 844-8633
ysuarez@oldsecond.com

Amy Lynch
(630) 906-5478
alynch@oldsecond.com